INFORMED INVESTORS

Excessive Trading

Excessive trading (also referred to as “churning”) is a pattern of frequent trade activity recommended and executed by a customer’s financial professional (“Broker”) that is inconsistent with the customer’s investment objectives and risk tolerance. Excessive trading increases the amount of commissions and other costs charged to a customer without a benefit to account performance. Excessive trading only benefits the Broker executing the trades and the Broker’s firm. Although the cost of one trade may (or may not) seem small, over time, the cumulative effect of excessive trading with its associated costs can have a significant, negative impact on a customer’s account performance.

Why Do Investors Need to Communicate Their Investment Goals and Objectives to Their Broker?

When you open a brokerage account, the Broker must review your investment goals, objectives and risk tolerance. The Broker should use this information to construct an investment portfolio tailored specifically for you.

Common terms for investment objectives include “capital preservation” or “income” or “growth.” Common terms for risk tolerance include “moderate” or “aggressive” or “speculation.” You should make sure that you understand these terms (many account forms have definitions for these terms on the account opening document, the account statement, or both) and ask any questions you may have when discussing your investment objectives with your Broker. You should keep a record of the investment goals that you have communicated to your Broker.

How Can Investors Detect Excessive Trading?

Investors should look for these signs, as they may indicate excessive trading:

Frequent Trading: Be concerned if you notice short term purchases or sales of securities (an interval of 30 days or less). If you see frequent trades, ask yourself if the activity is consistent with what you expected or if it is at odds with your investment goals and risk tolerance. A diversified portfolio of securities with little trading (except when market conditions or changes in strategy warrant adjustments) is common with retail investors. If your Broker recommends frequent purchases and sales of individual securities, you should ask why and, if you do not receive justifiable answers, speak to a supervisor. If you have managed money accounts that are fee based, not transaction/commission based, there is less cause for concern as the financial professional has no commission-based financial motive for excessive trading.

High Commissions and/or Fees: Investors should be suspicious if the total amount of commissions or fees paid in the account seems high. The key is if the trading is excessive in light of your objectives and risk profile. Ask your Broker how much you will be charged for transactions at the inception of your relationship or now, if you have not done so before. Remember, commissions and fees add up. If you do not understand the reason for a trade or do not understand the costs associated with the trade, ask questions until you get satisfactory answers. Also, ask if the Broker’s firm offers any fee-based programs or reduced commission programs that would reduce the total commissions and/or fees.

Unauthorized Trading: Be alarmed if you become aware of trades in your account that you did not authorize. Your Broker cannot execute a transaction without your prior approval, unless you have given the Broker written authority (discretion) to execute trades without your prior authorization. Read all account statements and trade confirmations you receive related to your investment accounts to ensure that all trades have been authorized by you.

High Pressure Sales Tactics: Be concerned if your Broker is pressuring you to act immediately to purchase or sell a security, for example based on some non-public or inside information or expected market changes.

continued

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To learn more, contact the New Jersey Bureau of Securities

NJSecurities.gov | 973-504-3600 | njbos@dca.lps.state.nj.us

What Steps Can You Take If You Detect a High Level of Trade Activity?

Always read all account statements and trade confirmations you receive related to your investment accounts to ensure that all trades have been authorized by you and you have been charged appropriate commissions and fees. If your account has a high volume of trading activity, contact your Broker or a supervisor at the brokerage firm immediately. Your brokerage firm may contact you to ask that you acknowledge and confirm trade activity and ask if you are satisfied with how your Broker is handling your account.

You should ask the following questions:

1. **The rationale for the Broker's recommended trading activity and investment strategy given your investment objectives;**

2. **The total commissions or other transaction fees charged over the past month, quarter or year; and**

3. **What percentage return on your investment would be needed in order to make money in your portfolio? In other words, if the commissions, fees and costs associated with your account are 5%, you will not make money unless and until the portfolio performance exceeds 5%.**

Once you obtain this information, you may want to speak with the Broker's manager or supervisor or the firm's compliance department to further understand the rationale for activity in the account in light of your overall investment objectives or goals.

What Should You Do If You Believe Excessive Trading Has Taken Place In Your Account?

You should contact your broker firm's compliance department and the New Jersey Bureau of Securities if you have concerns with the trading activity in your account. A complaint can be filed with the New Jersey Bureau of Securities online, by letter, email or by calling us.

Address

New Jersey Bureau of Securities
Office of New Jersey Attorney General
153 Halsey Street, 6th FL.
Newark, NJ 07102
Attn: Complaints Unit

Email

njbos@dca.lps.state.nj.us

Phone

(866) I-Invest (866-446-8378)

Internet

www.NJSecurities.gov

File a complaint

www.NJConsumerAffairs.gov/bos/Pages/File-a-Complaint.aspx

__The New Jersey Bureau of Securities__ ("Bureau") is charged with protecting investors from investment fraud, and regulating the securities industry in New Jersey. In addition to bringing investigative and enforcement actions against firms or individuals who violate the New Jersey Uniform Securities Law and Regulations, the Bureau registers securities offered or sold in New Jersey and oversees the firms and individuals selling securities or providing investment advice to New Jersey residents. Through its Investor Education initiative, the Bureau also helps New Jersey residents become informed investors and promotes financial literacy.